Central Intelligence Agency

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DIRECTORATE OF INTELLIGENCE

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MEXICO: DEBT BURDEN STILL HEAVY AFTER RESCHEDULING [redacted] 25X1

Summary

Mexico's recent preliminary agreement with international banks for a multi-year debt rescheduling smooths the bulges in repayments. Nevertheless, the debt service burden will remain heavy and constrain imports and economic growth throughout the remainder of this decade. The 8 September proposed rescheduling covers $48.5 billion of the $68 billion public sector debt. It does not apply to $28 billion in private sector debt. The arrangement significantly reduces public sector amortization payments during the next 6 years by stretching them out at lower interest through 1998. We believe Mexico City and its Bank Advisory Group will be able to sell the agreement to Mexico's other creditors, despite strong opposition from some regional and West European banks.

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This memorandum was requested by the Deputy Secretary of the Treasury. It was prepared by [redacted] Middle America-Caribbean Division, Office of African and Latin American Analysis. It was coordinated with Office of Global Issues. Information as of 24 September 1984 was used in preparation of this paper. Comments and questions are welcome and should be addressed to Chief, Middle America-Caribbean Division, [redacted] 25X1 25X1

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New Agreement for Public Debt

The key elements of the rescheduling are:

-- 14 year repayment period with 1 year grace;

-- dropping of the US prime rate option in favor of the lower London Interbank Offered Rate (LIBOR) as the baseline for calculating interest;

-- an average risk premium of 1.125 percentage points above LIBOR, ranging from a low of 0.875 percentage points in 1985-86 to a high of 1.25 percentage points after 1991; and

-- a one-time creditor option to convert up to 50 percent of Mexican debt to the creditor's domestic currency.

The proposed agreement will significantly reduce the government's amortization payments in the medium term. According to figures released by Finance Minister Silva-Herzog and reported by both the Embassy and press, principal repayments will drop by an average of almost $9 billion annually in the 1985-90 period and will range from $1.8-4.4 billion annually (Figure I). In 1987, for example, the saving will be $12.4 billion and in 1990 $6.1 billion. Thereafter, annual amortization payments will gradually rise from $5.3 billion in 1991 to $6.4 billion in 1998.

The tentative rescheduling will give Mexico financial breathing room, but the debt repayment burden will remain heavy. Fluctuations in world interest rates will be the primary factor altering payments schedules over the term of the agreement. In our baseline, we assume that interest rates remain at current levels. In this case, principal and interest payments on public and private debt rise from almost $18 billion in 1985 to over $24 billion in 1990, up one third in the period. If interest rates decline somewhat, our optimistic case, payments are $23 billion by 1990. Higher interest rates, however, would boost repayments to $26 billion by 1990.

A rescheduling of the $28 billion private debt will ease Mexico's debt service burden slightly. If private debt is restructured along the lines of the public debt rescheduling, principal payments would decline by $2-3 billion annually. Even with such a restructuring, however, total debt service payments would exceed $20 billion in 1990.

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Implications of Restructuring

The heavy debt service burden and banker resistance to additional reschedulings and new loans will constrain Mexico's import capacity and economic growth into the 1990s. We estimate that Mexico's debt service will equal foreign exchange earnings from oil exports averaging 1.5 million b/d or roughly three-quarters of earnings from merchandise exports in 1985-90. Under these circumstances, import capacity will be largely determined by nonoil export receipts, including earnings from tourism, and net new foreign loans from international banks. We expect bankers will continue to resist making new loans to Mexico and that new borrowing will total about $3 billion annually in 1985-90. This compares with net borrowing of $21 billion in 1981. Mexico's capacity to import machinery, spare parts, industrial raw materials and other items necessary to resume and sustain strong economic growth will remain limited during the period.

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MEXICO: TOTAL AMORTIZATION PAYMENTS ON PUBLIC SECTOR EXTERNAL DEBT

Table I

Total Amortization Payments on the Public Sector External Debt Prior To and After Debt Restructuring

(Billion US $)

Year	Before	After
1985	9.8	1.9
1986	9.2	2.1
1987	14.1	1.8
1988	13.5	2.4
1989	12.2	3.8
1990	10.5	4.4
1991	1.0	5.3
1992	.7	5.5
1993	.5	5.8
1994	.4	5.9
1995	.4	5.9
1996	.4	6.1
1997	.4	6.4
1998	.4	6.4

MEXICO: ESTIMATED INTEREST AND PRINCIPAL PAYMENTS

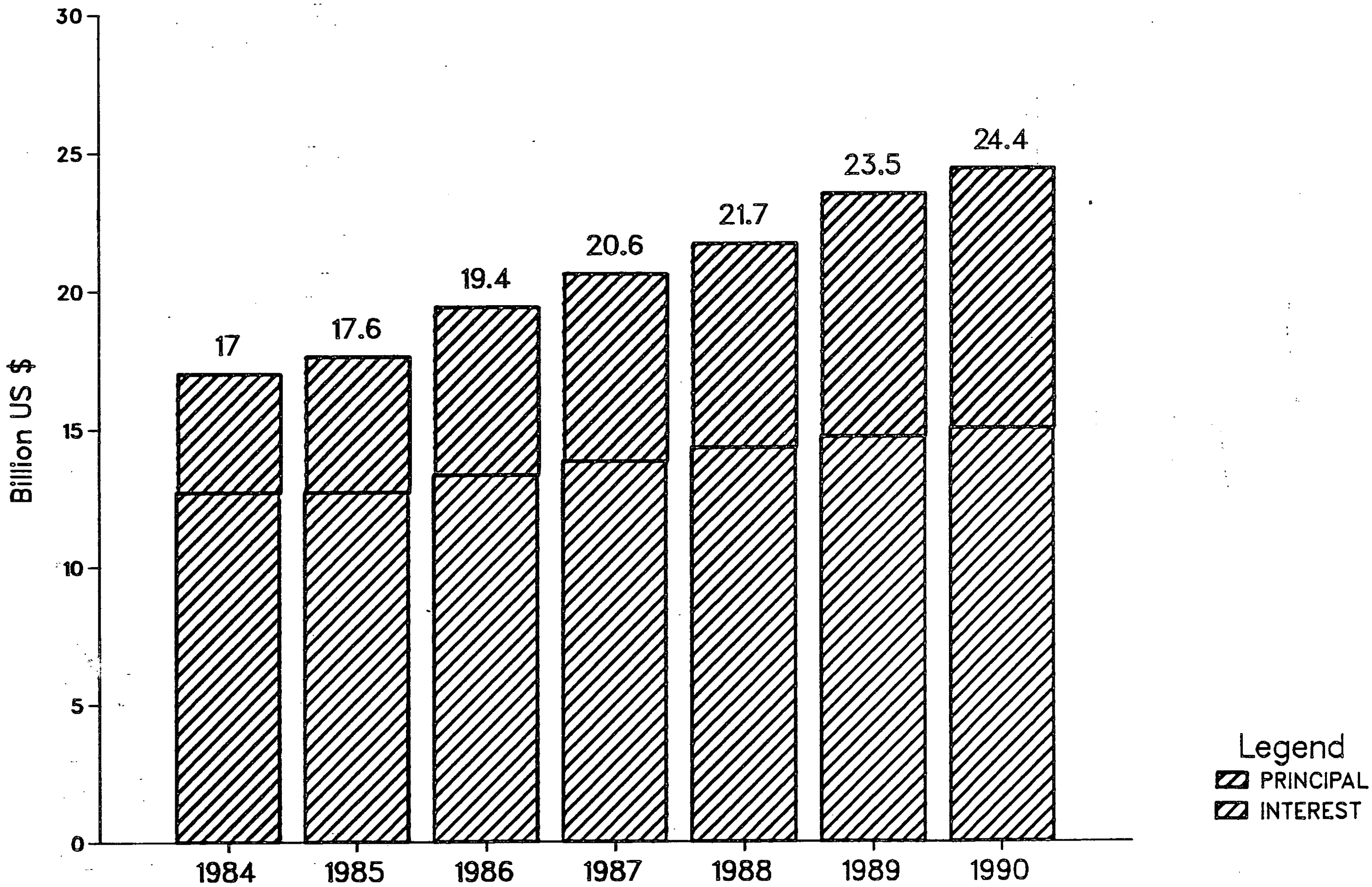

Table II

Mexico: Estimated Restructured Debt Service, 1984-90

(Billion US $)

	1984	1985	1986	1987	1988	1989	1990
			Baseline Case: Constant Interest Rates				
Total Debt Service	17.0	17.6	19.4	20.6	21.7	23.6	24.4
Public Sector	10.2	10.7	11.4	11.7	12.8	14.7	15.7
Interest Payments	8.9	8.8	9.3	9.9	10.4	10.9	11.3
Principal Payments	1.3	1.9	2.1	1.8	2.4	3.8	4.4
Private Sector	6.8	6.9	8.0	8.9	8.9	8.8	8.7
Interest Payments	3.8	3.9	4.0	3.9	3.9	3.8	3.7
Principal Payments	3.0	3.0	4.0	5.0	5.0	5.0	5.0
			Optimistic Case: Lower Interest Rates				
Total Debt Service	17.0	17.1	17.7	19.0	19.9	21.6	22.7
Public Sector	10.2	10.4	10.2	10.5	11.5	13.3	14.4
Interest Payments	8.9	8.5	8.1	8.7	9.1	9.5	10.0
Principal Payments	1.3	1.9	2.1	1.8	2.4	3.8	4.4
Private Sector	6.8	6.7	7.5	8.5	8.4	8.3	8.3
Interest Payments	3.8	3.7	3.5	3.5	3.4	3.3	3.3
Principal Payments	3.0	3.0	4.0	5.0	5.0	5.0	5.0
			Pessimistic Case: Higher Interest Rates				
Total Debt Service	17.0	18.1	20.8	22.2	23.3	25.1	26.1
Public Sector	10.2	11.1	12.4	12.8	14.0	15.9	17.0
Interest Payments	8.9	9.2	10.3	11.0	11.6	12.1	12.6
Principal Payments	1.3	1.9	2.1	1.8	2.4	3.8	4.4
Private Sector	6.8	7.0	8.4	9.4	9.3	9.2	9.1
Interest Payments	3.8	4.0	4.4	4.4	4.3	4.2	4.1
Principal Payments	3.0	3.0	4.0	5.0	5.0	5.0	5.0

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Assumptions for Table II

London Interbank Offered Rate (LIBOR)

	Percent 1984	1985	1986-90
Baseline Case	11.5	11.5	11.5
Optimistic Case	11.5	11.0	10.0
Pessimistic Case	11.5	12.0	13.0

Risk Premium (Spread)

	Percentage Point 1984	1985-86	1987-90
Rescheduled public debt	1.875	0.875	1.125
New loans and other debt not rescheduled	1.5	1.5	1.5
Private debt	2.0	2.0	2.0

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Table III

Mexico: Estimated Total External Debt by Sector, 1984-90

(Billion US $)

Year	Public Sector	Private Sector	Total	Net New Borrowing
1984	67.5	28.4	95.9	2.0
1985	69.8	28.6	98.4	2.5
1986	73.3	29.5	102.8	4.4
1987	77.3	29.2	106.5	3.7
1988	81.3	28.7	110.0	3.5
1989	84.7	27.9	112.6	2.6
1990	88.3	27.1	115.4	2.8

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